

**The Internal Revenue Service Complied With
Levy Requirements**

July 2001

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This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

July 23, 2001

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION
COMMISSIONER, WAGE AND INVESTMENT DIVISION

A handwritten signature in cursive script that reads "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - The Internal Revenue Service Complied
With Levy Requirements

This report presents the results of our review of the Internal Revenue Service's (IRS) compliance with levy requirements. The objective of this audit was to determine if the IRS complied with 26 U.S.C. § 6330¹ by notifying taxpayers of its intent to levy, and of their appeal rights, at least 30 days before issuing levies. We also determined if the IRS complied with internal guidelines regarding Notices of Intent to Levy.²

In summary, we determined the IRS complied with 26 U.S.C. § 6330 by notifying taxpayers of its intent to levy, and of their appeal rights, at least 30 days before issuing levies. We also determined the IRS generally complied with internal guidelines regarding Notices of Intent to Levy. Although the IRS met its legal requirements, Revenue Officers did not always properly document their actions when providing taxpayers with Notices of Intent to Levy.

We recommended that the Commissioner, Small Business/Self-Employed (SB/SE) Division, develop guidelines to ensure that Revenue Officers working Integrated Collection System cases maintain proof that they timely mailed Notices of Intent to Levy to taxpayers. The Commissioner, SB/SE Division, should also ensure information is

¹ 26 U.S.C. § 6330 (Supp. IV 1998).

² Notice of Intent to Levy and Notice of Your Right to a Hearing, Letters 11 and 1058 (DO) (Rev. 1-1999).

distributed to employees and that manuals and guides are revised to clarify the procedures and stress the importance of updating taxpayer accounts to show a Notice of Intent to Levy has been issued. Also, managerial and quality reviews should include procedures to monitor Revenue Officers' compliance with the requirement to update taxpayer accounts.

Management agreed to two recommendations but provided an alternative corrective action to enhance the Revenue Officers' documentation of their actions when providing taxpayers with Notices of Levy. In our opinion, the alternative procedures will help improve the documentation process. Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included as an appendix.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Maurice S. Moody, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

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Executive Summary

When initial contacts by the Internal Revenue Service (IRS) do not result in the successful collection of unpaid tax, the IRS has the authority to work directly with employers and other parties to obtain funds owed to the taxpayer.¹ This procedure is commonly referred to as a “levy.”

Since January 19, 1999, the IRS has been required by 26 U.S.C. § 6330² to notify taxpayers of its plans to levy their property, and their right to appeal pending levy actions, at least 30 calendar days before issuing levies. The Treasury Inspector General for Tax Administration (TIGTA) is required to determine annually if the IRS is complying with this law.³ In September 1999, the TIGTA reported 32 percent of the levies reviewed did not comply with the law.⁴ In September 2000, the TIGTA reported the IRS significantly improved its compliance with the law; only 2 percent of the levies reviewed did not meet the legal requirements.⁵

This is the third TIGTA audit to determine if the IRS complied with legal requirements set forth in 26 U.S.C. § 6330 by notifying taxpayers of its intent to levy, and of their appeal rights, at least 30 days before issuing levies. To accomplish our objective, we reviewed 78,594 levies requested nationwide through the IRS’ Automated Collection System (ACS) and the Integrated Collection System (ICS) between February 1 and July 31, 2000. We also determined if the IRS complied with internal levy guidelines.

Results

The IRS complied with 26 U.S.C. § 6330 by notifying taxpayers, at least 30 days before issuing levies, of its intent to levy and of their appeal rights. The IRS implemented extensive computer system upgrades and used established internal guidelines to help ensure it met its legal and internal requirements when issuing levies.

¹ 26 U.S.C. § 6331 (1994 and Supp. IV 1998).

² 26 U.S.C. § 6330 (Supp. IV 1998).

³ 26 U.S.C. § 7803(d)(1)(A)(iv) (Supp. IV 1998).

⁴ *The Internal Revenue Service Has Not Fully Implemented Procedures to Notify Taxpayers Before Taking Their Funds For Payment of Tax* (Reference Number 1999-10-071, dated September 1999).

⁵ *The Internal Revenue Service Has Significantly Improved Its Compliance With Levy Requirements* (Reference Number 2000-10-150, dated September 2000).

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Although the IRS met its legal requirements, Revenue Officers did not always properly document their actions when providing taxpayers with Notices of Intent to Levy.⁶ Unlike the ACS call site employees, Revenue Officers make personal (face-to-face) contact with taxpayers and use the ICS to manage inventories and to track collection actions taken on taxpayers' accounts.

Revenue Officers did not always obtain proof they timely mailed the notices via certified mail, return receipt requested. In addition, they did not always update accounts on the primary IRS computer system, the Integrated Data Retrieval System (IDRS), to show they provided notices to taxpayers.

Internal Revenue Service System Controls and Procedures Help Ensure It Complies With Legal and Internal Requirements

The IRS complied with the provisions of 26 U.S.C. § 6330 for all 78,594 levies reviewed (66,634 ACS levies and 11,960 ICS levies). We believe this compliance is primarily the result of system upgrades to the ACS and ICS, as well as adherence to established internal requirements.

IRS employees use the ACS and ICS to manage inventory and track collection actions, including levies and Notices of Intent to Levy.⁷ The IRS upgraded the ACS in January 2000 and the ICS in April 1999 to systemically prevent employees from levying taxpayers' property less than 30 days after sending them notice of its intent to levy. In addition, the IRS upgraded both systems during the same time periods to warn employees who may attempt to levy taxpayer property too soon. IRS procedures require employees to wait 45 days after requesting a Notice of Intent to Levy before levying taxpayer property, to help ensure mailing delays or timing differences do not cause the IRS to levy taxpayer property after the taxpayer has timely requested an appeal.

Our tests of the ACS and ICS verified these systemic controls were effective. At our request, the IRS employees made several attempts to prematurely issue levies; neither system allowed the employees to issue a levy less than 30 days after the notice request date. Also, both systems generated a warning each time an employee attempted to levy taxpayer property after the 30-day legal waiting period had passed but before the IRS 45-day guideline had expired.

In addition, system controls and procedures helped ensure the IRS complied with internal guidelines. For example, the ACS systemically updates accounts on the IDRS to show when the IRS notified a taxpayer of its intent to levy his/her property. This alerts any IRS employee who works the account in the future that the taxpayer was issued a Notice of Intent to Levy. In addition, the ACS procedures for providing Notices of Intent to

⁶ Notice of Intent to Levy and Notice of Your Right to a Hearing, Letter 1058 (DO) (Rev. 1-1999).

⁷ Notice of Intent to Levy and Notice of Your Right to a Hearing, Letters 11 and 1058 (DO) (Rev. 1-1999).

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Levy to taxpayers help ensure the notices are timely mailed via certified mail, return receipt requested, so the IRS has proof of mailing. The IRS also has an ICS closed case quality review program. This program includes procedures to determine if taxpayers were properly notified of the IRS' intent to levy.

Revenue Officers Did Not Always Properly Document Their Actions When Providing Taxpayers With Notices of Intent to Levy

In contrast to the ACS call site employees, Revenue Officers did not always retain evidence that the Notices of Intent to Levy were mailed timely to taxpayers. In addition, they did not always update accounts on the IDRS to show they provided taxpayers the Notice of Intent to Levy.

Revenue Officers did not always obtain postmarks when mailing the Notice of Intent to Levy to taxpayers. The IRS was able to provide us with postmarked mail receipts for only 7 of 39 (18 percent) ICS sampled cases.⁸ The IRS manual does not require Revenue Officers to obtain postmarked receipts when they mail Notices of Intent to Levy to taxpayers. However, without such documentation, the IRS has no proof that the notices were timely mailed and taxpayers' appeal rights were protected.

Revenue Officers updated taxpayer accounts on the IDRS for only 30 of the 44 (68 percent) ICS cases sampled. Revenue Officers should request taxpayer account updates on the IDRS through the ICS. Updating the IDRS notifies any IRS employee who may work the account in the future that the IRS mailed or delivered a Notice of Intent to Levy to the taxpayer. After we advised the IRS of this concern, an analyst from the Small Business/Self-Employed (SB/SE) Division informed us that information will be distributed to clarify the procedures and stress the importance of updating the IDRS to show that a Notice of Intent to Levy has been issued. In addition, the analyst stated that the IRS manual and the ICS User Guide will be updated appropriately.

Summary of Recommendations

The Commissioner, SB/SE Division, should develop guidelines to ensure that Revenue Officers working ICS cases maintain proof that they timely mailed Notices of Intent to Levy to taxpayers. The Commissioner, SB/SE Division, should also ensure information is distributed to employees and that manuals and guides are revised to clarify the procedures and stress the importance of updating taxpayer accounts to show a Notice of Intent to Levy has been issued. Also, managerial and quality reviews should include

⁸ Of the 110 ICS cases selected for our sample, the IRS provided proof of delivery for only 41 cases. Revenue Officers hand-delivered 2 notices and mailed 39 notices. The IRS did not provide evidence that the Notices of Intent to Levy were delivered for the other 69 cases.

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procedures to monitor Revenue Officers' compliance with the requirement to update taxpayer accounts.

Management's Response: SB/SE management proposed an alternative solution for enhancing its documentation when Revenue Officers provide taxpayers with Notices of Intent to Levy. The IRS manual will be updated to require that Revenue Officers record in the case history when and how the notice is delivered. In addition, if the notice is mailed, the case file will include the related certified mail documents. SB/SE management will not require Revenue Officers to obtain proof from the Post Office of when the notices are mailed. They stated that if this information is needed they could obtain the proof of mailing from the Post Office for a year after the mailing. We believe that these actions will result in better documentation of the notification process.

SB/SE management also agreed to revise the IRS manual to provide instructions on the correct method for updating the notice information and to ensure the instructions are distributed to employees. In addition, the Collection Quality Measurement System will include a new process measure for reflecting Revenue Officers' compliance with the requirement to update taxpayer accounts when sending Notices of Intent to Levy.

Management's complete response to the draft report is included as Appendix VI.

Objective and Scope

The overall objective of the review was to determine if the IRS complied with legal requirements to notify taxpayers of its intent to levy at least 30 days before issuing a levy.

The overall objective of this audit was to determine if the Internal Revenue Service (IRS) complied with legal requirements set forth in 26 U.S.C. § 6330¹ by notifying taxpayers of its intent to levy, and of their appeal rights, at least 30 days before issuing levies. We also determined if the IRS complied with internal levy guidelines set forth in its Internal Revenue Manual.

The Treasury Inspector General for Tax Administration (TIGTA) is required to determine annually if the IRS is complying with 26 U.S.C. § 6330.² We performed our audit work between September 2000 and April 2001. This audit was performed in accordance with *Government Auditing Standards*.

To determine if the IRS complied with provisions of this law, we:

- Visited the Kansas City Automated Collection System (ACS) Call Site, the Kansas City Service Center Collection Branch, and the St. Louis Collection office to determine if the IRS implemented new controls or procedures for sending notices to taxpayers and levying their property. We also tested computer controls to determine if they systemically prevented the IRS employees from issuing levies before 30 days had passed, as required by the law.
- Obtained extracts of 90,808 levies requested nationwide on the ACS and Integrated Collection System (ICS) between February 1 and July 31, 2000, and extracts from the IRS Masterfile for Notices of Intent to Levy issued between January 1 and July 31, 2000. We analyzed 78,594 of the 90,808 levies (66,634 from ACS and 11,960 from ICS) to determine if the IRS issued Notices of

¹ 26 U.S.C. § 6330 (Supp. IV 1998).

² 26 U.S.C § 7803(d)(1)(A)(iv) (Supp. IV 1998).

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Intent to Levy³ at least 30 days before levying taxpayers' property.

- Discussed and reviewed methodology and results of the Collection Quality Measurement System (CQMS) the IRS uses to help monitor its compliance with due process requirements.

To determine if the IRS complied with internal guidelines when issuing Notices of Intent to Levy, we:

- Obtained certified mail listings and mail receipts for statistically valid samples of 112 ACS levies and 39 ICS levies to determine if the IRS appropriately and timely mailed the Notices of Intent to Levy and retained proof of the mailings.
- Selected a statistical sample of 148 ACS levies and 44 ICS levies in which the notice dates were not available on the extracts. For these cases, we analyzed the ACS, ICS, and Masterfile data to determine if taxpayer accounts were properly updated on the Integrated Data Retrieval System (IDRS), the IRS' primary computer system.

Details of our audit objective, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II. Details of our sampling methodology are presented in Appendix IV. A description of the IRS computer systems used in the filing of levies is included in Appendix V.

Background

When initial contacts by the IRS do not result in the successful collection of unpaid tax, the IRS has the authority to work directly with employers and other parties to obtain funds owed to taxpayers.⁴ This procedure is commonly referred to as a "levy."

³ Notice of Intent to Levy and Notice of Your Right to a Hearing, Letters 11 and 1058 (DO) (Rev. 1-1999).

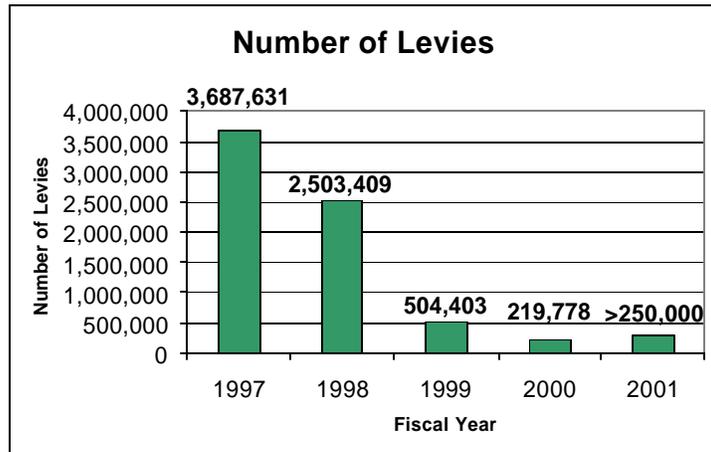
⁴ 26 U.S.C. § 6331 (1994 and Supp. IV 1998).

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The IRS is required to notify taxpayers in writing of its intent to levy, and explain the taxpayer's right to appeal the levy action, at least 30 days before issuing a levy.

For each tax period to be levied, the IRS is required to notify the taxpayer the first time it intends to collect a tax liability by levy. It does this by providing the taxpayer a Notice of Intent to Levy. The IRS cannot levy taxpayer property less than 30 days after the date it mails this notice, gives it to the taxpayer, or leaves it at the taxpayer's home or office. During that 30-day waiting period, the taxpayer may request a hearing with the IRS office of the Chief, Appeals.

According to IRS reports, the number of levies issued by the IRS has significantly decreased in each of the past 3 fiscal years. However, the IRS estimates the number of levies issued by the IRS will increase during Fiscal Year 2001.



Source: IRS Collection Activity Records, Fiscal Year 2001 Estimated

Synopsis of the IRS collection and levy processes

Call site employees telephone taxpayers in an attempt to collect taxes. The computer system used to manage inventory and track collection actions is the ACS. When call site employees determine that levying taxpayer property is the next appropriate action, they should systemically request the ACS to generate a Notice of Intent to Levy.

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Employees update the primary IRS computer system, through the ACS and ICS, when they issue a Notice of Intent to Levy.

Revenue Officers make personal (face-to-face) contact with taxpayers and work from IRS field offices. Revenue Officers use the ICS to manage inventory and to track collection actions taken on taxpayers' accounts. When they determine levying taxpayer property is the next appropriate action, they should systemically request the ICS to generate a Notice of Intent to Levy. The Revenue Officer is responsible for mailing the notice certified mail, return receipt requested, or hand-delivering it to the taxpayer.

Both the ACS and ICS create a systemic notation in the taxpayer account when the call site employee (ACS) or Revenue Officer (ICS) systemically requests the generation of a Notice of Intent to Levy. In addition, the ACS automatically updates the IDRS to indicate Notices of Intent to Levy were issued. However, the Revenue Officer must make a special request through the ICS to update the IDRS, to show he/she delivered a Notice of Intent to Levy.

The IRS guidelines for the ACS require a certified mail listing be generated for all notices mailed. When the United States Postal Service picks up the mail, the postal worker should ensure the listing is accurate and date stamp it as proof of mailing. IRS procedures require the local retention of these listings for 3 years after the date the tax is assessed.

The IRS guidelines require IRS employees to wait 45 days after systemically requesting the generation of a Notice of Intent to Levy before levying taxpayer property. The additional time allows for mailing as well as the processing of notice requests and taxpayer hearing requests mailed to the IRS near the end of the 30-day levy notice period. The additional days do not extend the 30-day levy notice period; however, the internal guideline extension provides further assurance the IRS protects the taxpayer's right to a hearing.

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IRS compliance with 26 U.S.C. § 6330 improved in Fiscal Year 2000.

Results of prior TIGTA reviews

The TIGTA is required to determine annually if the IRS is complying with 26 U.S.C. § 6330. In September 1999, the TIGTA reported 32 percent of the levies reviewed did not comply with the law.⁵ In September 2000, the TIGTA reported the IRS had significantly improved its compliance with legal requirements for levying taxpayer property, as only 2 percent of the levies reviewed did not comply with the law.⁶

Results

Since the implementation of 26 U.S.C. § 6330 in January 1999, the IRS has taken steps to ensure it complies with legal requirements by significantly upgrading its computer systems and following established internal requirements. However, Revenue Officers did not always properly document their actions when providing taxpayers with Notices of Intent to Levy. For example, they did not always obtain or maintain postmarked receipts when they mailed notices to taxpayers. In addition, Revenue Officers, using the ICS, did not always request taxpayer account updates on the IDRS to indicate they had sent the taxpayer a Notice of Intent to Levy.

⁵ *The Internal Revenue Service Has Not Fully Implemented Procedures to Notify Taxpayers Before Taking Their Funds For Payment of Tax* (Reference Number 1999-10-071, dated September 1999).

⁶ *The Internal Revenue Service Has Significantly Improved Its Compliance With Levy Requirements* (Reference Number 2000-10-150, dated September 2000).

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Internal Revenue Service System Controls and Procedures Help Ensure It Complies With Legal and Internal Requirements

The IRS notified taxpayers of its intentions to levy their property at least 30 days before issuing the levies.

The IRS issued Notices of Intent to Levy to taxpayers at least 30 days before levying their property for all 78,594 levies we reviewed (66,634 ACS levies and 11,960 ICS levies). In addition, the IRS had updated taxpayer accounts to show levy activity and had appropriately mailed the Notice of Intent to Levy via certified mail, return receipt requested, in the 148 ACS levies sampled.

System controls and established procedures helped ensure compliance with 26 U.S.C. § 6330

The ACS and ICS systemic controls prevent employees from issuing levies without notifying taxpayers at least 30 days before the IRS levies their property. At our request, IRS employees made several attempts to prematurely issue levies; neither system allowed the employees to issue a levy less than 30 days after the notice request date. Also, both systems generated a warning each time an employee attempted to levy taxpayer funds after the 30-day legal waiting period had passed but before the IRS 45-day guideline had expired.

The upgrades to the ACS and ICS systemically prevent employees from levying taxpayers' property less than 30 days after sending them notices.

The IRS upgraded the ACS in January 2000 and the ICS in April 1999 to systemically prevent employees from levying taxpayers' property less than 30 days after sending them notices. In addition, the IRS upgraded both systems during the same time periods to warn employees attempting to issue a levy if they have not waited 45 days since requesting the taxpayers be issued a Notice of Intent to Levy. The IRS procedures established in 1999 require employees to wait 45 days after requesting Notices of Intent to Levy before levying taxpayers' property. This helps ensure mailing delays or timing differences do not cause the IRS to levy taxpayer property after taxpayers have timely requested an appeal.

In addition, the IRS has an ICS closed case quality review program. The review program is used to identify

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non-compliance with legal requirements and internal guidelines, as well as to provide feedback to management on trends of non-compliance and to identify training needs. The review program includes procedures to determine if taxpayers were properly notified of the IRS' intent to levy. For those cases with levy actions, the reviewer determines if employees waited 45 days after requesting Notices of Intent to Levy before levying taxpayer property. Any violations are to be reported to the appropriate manager.

Our review showed that closed case quality review identified and reported violations. For example, reports on closed case levy reviews issued between January and July 2000 reflected that, for 52 levies, Revenue Officers may have violated IRS procedures by levying taxpayer funds less than 45 days after requesting a Notice of Intent to Levy be issued to the taxpayer. However, none of the 52 levies were in violation of the law since they were issued more than 30 days after the IRS issued a Notice of Intent to Levy to the taxpayer.

System controls and procedures also helped ensure compliance with internal requirements

The ACS computer system systemically updated taxpayer accounts on the primary IRS computer system, the IDRS, to show the IRS issued Notices of Intent to Levy to taxpayers. The IRS (call-site employees) also mailed ACS Notices of Intent to Levy via certified mail, return receipt requested, and retained proof of mailing.

- The ACS automatically updated the IDRS to indicate when the IRS notified a taxpayer of its intent to levy his/her property. This alerts any IRS employee who works the account in the future that the taxpayer was issued a Notice of Intent to Levy. The ACS updated taxpayer accounts to show the IRS issued a Notice of Intent to Levy for all of the 148 ACS levies we reviewed.
- Certified mail listings for a sample of 112 ACS levies showed the IRS mailed the notices certified mail, return receipt requested, as required by 26 U.S.C. § 6330. The mail listings were date

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stamped by the United States Postal Service and retained to prove the notices were timely mailed.

Revenue Officers Did Not Always Properly Document Their Actions When Providing Taxpayers With Notices of Intent to Levy

In contrast to the ACS call site employees, Revenue Officers did not always retain adequate proof that they timely mailed Notices of Intent to Levy to taxpayers using certified mail, return receipt requested. In addition, they did not always update taxpayer accounts on the IDRS to show they provided taxpayers the Notices of Intent to Levy.

Revenue Officers did not always obtain evidence that the Notices of Intent to Levy were mailed timely to taxpayers

The IRS can not always prove Revenue Officers timely mailed Notices of Intent to Levy.

Revenue Officers did not always obtain postmarks when mailing the Notice of Intent to Levy to the taxpayers. For the ICS sampled cases, the IRS provided us with 39 mail receipts; however, only 7 were postmarked to prove when Revenue Officers sent the notices. The IRS also provided information for two additional ICS cases sampled. For these two cases, Revenue Officers hand delivered the notices.⁷

Although the law requires Revenue Officers who mail Notices of Intent to Levy to taxpayers to use certified mail, the IRS guidelines do not require Revenue Officers to obtain postmarked mail receipts when they mail the notices to taxpayers. We believe the IRS should require Revenue Officers to maintain independent, third party confirmation showing when they mailed Notices of Intent to Levy to taxpayers. For example, the IRS guidelines require the ACS units to maintain a

⁷ Of the 110 ICS cases selected for our sample, the IRS provided proof of delivery for only 41 cases. Revenue Officers hand-delivered 2 notices and mailed 39 notices. The IRS did not provide evidence that the Notices of Intent to Levy were delivered for the other 69 cases.

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postmarked certified mail listing for all notices mailed for 3 years. Without such documentation, the IRS has no proof the notices were timely mailed and taxpayers' appeal rights were protected.

Revenue Officers did not always update taxpayer accounts when they mailed taxpayers a Notice of Intent to Levy

Revenue Officers did not update taxpayer accounts on the IDRS in 14 of 44 instances we sampled.

Revenue Officers updated taxpayer accounts on the IDRS to show they issued a Notice of Intent to Levy for only 30 of 44 (68 percent) of the collection cases we sampled. Account updates alert IRS employees who might work the account in the future of any actions IRS employees have taken on the account.

Revenue Officers working ICS cases must make a special request through the ICS to update the IDRS to show they delivered a Notice of Intent to Levy. For 14 of the 44 ICS levies reviewed, Revenue Officers did not request that the IDRS be updated with the levy activity.

After we advised the IRS of this concern, an analyst from the Small Business/Self-Employed (SB/SE) Division informed us that information will be distributed to clarify the procedures and stress the importance of updating the IDRS to show that a Notice of Intent to Levy has been issued. In addition, the IRS manual and the ICS User Guide will be updated appropriately, according to the analyst.

Although the IRS planned to initiate actions, it has not established controls to monitor employee compliance with procedures to ensure Revenue Officers request IDRS taxpayer account updates through the ICS when they provide taxpayers a Notice of Intent to Levy.

Recommendations

The Commissioner, SB/SE Division, should:

1. Develop guidelines to ensure that Revenue Officers working ICS cases maintain proof that they timely mailed Notices of Intent to Levy to taxpayers.

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Management's Response: SB/SE management proposed an alternative approach to enhancing the documentation when Revenue Officers provide taxpayers with Notices of Intent to Levy. The IRS manual will be updated to require Revenue Officers to record in the case history when and how the notice is delivered. In addition, if the notice is mailed, the case file will include the related certified mail documents. SB/SE management will not require Revenue Officers to obtain proof from the Post Office of when the notices are mailed. They stated that if this information is needed they could obtain the proof of mailing from the Post Office for a year after the mailing.

Office of Audit Comment: We believe that these actions will result in better documentation of the notification process.

2. Ensure information is distributed to employees and that appropriate IRS manuals and guides are revised to clarify the procedures and stress the importance of updating taxpayer accounts to show a Notice of Intent to Levy has been issued.

Management's Response: SB/SE management agreed with the recommendation and forwarded information on updating accounts to the ICS coordinators, who will provide the information to front-line employees. In addition, the IRS manual will be revised to provide instructions on the correct method for updating the notice information, and the new Users Guide will cover instructions on documenting the method of delivering the notice.

3. Establish controls to ensure Revenue Officers request IDRS taxpayer account updates through the ICS when they provide taxpayers a Notice of Intent to Levy. This could be accomplished by including this issue in managerial and quality reviews.

Management's Response: SB/SE management agreed with the recommendation and will revise the CQMS to include a new process measure for reflecting Revenue Officers' compliance with the requirement to update

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taxpayer accounts when sending Notices of Intent to Levy.

Conclusion

The IRS complied with 26 U.S.C. § 6330 by notifying taxpayers of its intent to levy, and of their appeal rights, at least 30 days before issuing levies. The ACS and ICS upgrades helped ensure the IRS met its legal requirements when issuing levies. However, the IRS should take actions to ensure Revenue Officers obtain proof they timely mailed Notices of Intent to Levy to taxpayers using certified mail, return receipt requested, and take steps to update the accounts on the IDRS when they provide taxpayers with the notice.

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to determine if the Internal Revenue Service (IRS) complied with legal requirements set forth in 26 U.S.C. § 6330¹ by notifying taxpayers of its intent to levy, and of their appeal rights, at least 30 days before issuing levies. We performed the following tests to accomplish this objective. Details of our sampling methodology are presented in Appendix IV. A description of the IRS computer systems used in the filing of levies is included in Appendix V.

- I. To determine if the IRS implemented any new procedures for processing due process notices that would help it comply with legal and internal requirements and to test existing controls over levies prior to their issuance, we:
 - A. Visited appropriate IRS personnel in the Kansas City Automated Collection System (ACS) Call Site, Kansas City Service Center Collection Branch, and the St. Louis Collection office. We selected these offices for visitation based on travel costs and staff resources.
 - B. Observed IRS officials at the selected ACS and IRS offices attempt to issue a levy, at our request, less than 30 days after mailing the taxpayer a due process notice to determine if the systems would allow it.
- II. To determine if the IRS complied with 26 U.S.C § 6330 by notifying taxpayers of its intent to levy their property at least 30 days before taking levy actions, we:
 - A. Obtained a download of all 90,808 levies requested on the ACS call sites and on the Integrated Collection System (ICS) between February 1 and July 31, 2000 (the latest data available at the time of our data request). Identified 69,228 levies from the ACS and 21,580 from the ICS. We selected February 2000 to ensure the levies in the sample were issued after the ACS upgrade.
 - B. Obtained an extract of taxpayer accounts where Notices of Intent to Levy² were issued from January 1 to July 31, 2000 from the IRS' Masterfile. We selected January 2000 to capture Notices of Intent to Levy issued 30 days before the date of the first levy in the above extract.
 - C. Analyzed 66,486 of the 69,228 ACS levies by reviewing the electronic ACS transcripts (case file printouts) and comparing the Notice of Intent to Levy dates to the levy issuance dates contained in the transcripts. We also

¹ 26 U.S.C. § 6330 (Supp. IV 1998).

² Notice of Intent to Levy and Notice of Your Right to a Hearing, Letters 11 and 1058 (DO) (Rev. 1-1999).

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selected a statistical sample of 148 of the 2,742 cases in which the notice dates were no longer available on the transcripts. For these 148 cases, we researched the IRS' primary computer system, the Integrated Data Retrieval System (IDRS), and compared the notice dates on the IDRS to the levy issuance dates on the transcripts to determine if notices were timely issued and taxpayers' accounts were properly updated.

- D. Analyzed 11,916 of the 21,580 ICS levies requested between February 1 and July 31, 2000, and compared the levy dates contained in the transcripts to the notice dates on the IDRS extract. We also selected a statistical sample of 44 of the 9,664 cases in which the notice dates did not fall between the dates of the IDRS extract. For these 44 cases, we researched the ICS and compared the notice dates on the ICS to the levy issuance dates in the IDRS extract to determine if notices were issued timely and taxpayers' accounts were properly updated.

LEVIES ANALYZED	ACS	ICS	Total
Total number of levies extracted	69,228	21,580	90,808
Number of levies that could not be electronically analyzed	(2,742)	(9,664)	(12,406)
Number of levies electronically analyzed	66,486	11,916	78,402
Number of levies manually analyzed	148	44	192
Total number of levies analyzed	66,634	11,960	78,594

- III. To determine if the IRS complied with internal levy guidelines, we:
- A. Researched the IDRS, using the statistically valid ACS and ICS samples chosen in steps II.C and II.D, to determine if IRS employees updated taxpayer accounts when they issued Notices of Intent to Levy to taxpayers.
 - B. Analyzed statistically valid random samples of 112 ACS levies from the 69,228 ACS levies and 110 ICS levies from the 21,580 ICS levies to determine if the notice dates were accurate and if the notices were properly issued. Obtained copies of certified mail listings and mail receipts for the Notices of Intent to Levy in the sample and compared the postal date stamp to the notice date appearing on the ACS and ICS data.
 - C. Determined if the IRS uses the Collection Quality Measurement System (CQMS) to ensure its compliance with the legal due process requirements by contacting CQMS management.
 - D. Discussed and analyzed the CQMS review methodology and results of reviews conducted between January 1 and August 31, 2000.
 - E. Determined if management is using CQMS results to monitor IRS compliance with 26 U.S.C. § 6330 and correct any deficiencies.

The Internal Revenue Service Complied With Levy Requirements

- F. Discussed the feasibility of using CQMS results to monitor the IRS' compliance with the law.

Major Contributors to This Report

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Statistical Sampling Methodology

To achieve our objective, we used statistical sampling to determine if the:

- Notices of Intent to Levy¹ requested using the Automated Collection System (ACS) were timely mailed to taxpayers for the 2,742 levies in which documentation of the notices was no longer on ACS transcripts (case file printouts).
- Notices of Intent to Levy² requested on the Integrated Collection System (ICS) were timely mailed to taxpayers for the 9,664 levies in which the extract from the Integrated Data Retrieval System (IDRS), the IRS' main computer system, did not contain documentation of the notices.
- ACS transcripts accurately reflected the Notice of Intent to Levy request dates for the 69,228 levies requested on the ACS.
- The IDRS and ICS accurately reflected the dates the Notices of Intent to Levy were mailed for the 21,580 ICS levies.

To select statistically valid samples for each of the four tests, we created relational databases with tables containing all levies within the populations. We assigned each levy a sequential levy identification number.

We used the following attribute sampling formula to calculate proper sample sizes:

$$n = (NZ^2p(1-p)) / (NE^2 + Z^2p(1-p)) \text{ where:}$$

- n = Sample size
- N = Population
- Z = Desired confidence level (expressed in number of standard errors)
- p = Expected error rate (expressed as a percentage)³
- E = Precision level (in percentage points)

We used a random number generator (spreadsheet function) to randomly select numbers that would correspond to the levy identification numbers assigned in the relational database levy tables. In each instance, we selected an amount of random numbers equal to the sample size desired.

¹ Notice of Intent to Levy and Notice of Your Right to a Hearing, Letter 11 (Rev. 1-1999).

² Notice of Intent to Levy and Notice of Your Right to a Hearing, Letter 1058 (DO) (Rev. 1-1999).

³ Expected error rates were determined using prior Treasury Inspector General for Tax Administration audit results or experience gained from visiting the ACS offices and Revenue Officers.

The Internal Revenue Service Complied With Levy Requirements

We imported all four sets of random numbers into the relational database as tables and matched each random number table to the appropriate levy table using the random and levy identification numbers.

Objective II.C.

To determine if the ACS actually mailed notices to taxpayers for the 2,742 levies in which documentation of the notices was no longer on ACS transcripts, we selected a statistically valid random sample of 148 levies. We determined our sample size using the attribute sampling formula above where:

- N = Population = 2,742 ACS Levies
- Z = Desired confidence level = 2.575 standard errors = 99 percent confidence
- p = Expected error rate = 1.5 percent
- E = Precision level = 2.5 percentage points

Objective II.D.

To determine if field offices mailed notices to taxpayers before January 1, 2000, for the 9,664 levies in which our IDRS extract did not contain documentation of a notice, we selected a statistically valid random sample of 44 levies. We determined our sample size using the attribute sampling formula above where:

- N = Population = 9,664 ICS Levies
- Z = Desired confidence level = 2.81 standard errors = 99.5 percent confidence
- p = Expected error rate = 0.5 percent
- E = Precision level = 3 percentage points

Objective III.B.

To determine if the 69,228 ACS transcripts accurately reflected the date that the ACS mailed Notices of Intent to Levy to taxpayers, we selected a statistically valid random sample of 112 levies. We determined our sample size using the attribute sampling formula above where:

- N = Population = 69,228 ACS Levies
- Z = Desired confidence level = 2.575 standard errors = 99 percent confidence
- p = Expected error rate = 1.5 percent
- E = Precision level = 3 percentage points

The Internal Revenue Service Complied With Levy Requirements

Objective III.B.

To determine if the IDRS and ICS accurately reflected the dates Revenue Officers mailed Notices of Intent to Levy to taxpayers for the 21,580 ICS levies we identified, we selected a statistically valid random sample of 110 levies. We determined our sample size using the attribute sampling formula above where:

N = Population = 21,580 ICS Levies

Z = Desired confidence level = 2.575 standard errors = 99 percent confidence

p = Expected error rate = 1.5 percent

E = Precision level = 3 percentage points

**Internal Revenue Service Computer Systems
Used in the Filing of Levies**

The Automated Collection System (ACS) is a computerized call site inventory system used to maintain balance due accounts and return delinquency investigations. The ACS employees enter their case file information (on-line) on the ACS.

When levy is the next action to be taken, employees request, through the ACS, that a Notice of Intent to Levy¹ be mailed to the taxpayer. They then input special codes to the ACS to indicate the nature of the levy activity on the account. The ACS updates the Internal Revenue Service's (IRS) primary computer system, the Integrated Data Retrieval System (see section on the IDRS below).

The IRS upgraded the ACS in January 2000. The ACS no longer allows employees to issue a levy less than 30 days after a notice has been sent to the taxpayer of the IRS' intention to levy his/her property.

The Integrated Collection System (ICS) is a field office computer system with applications designed around each of the main collection tasks, such as opening a case, assigning a case, building a case, performing collection activity, and closing a case. The ICS is designed to provide management information, create and maintain case histories, generate documents, and allow on-line approval of case actions.

When levy is the next action to be taken, the Revenue Officer inputs a request for a Notice of Intent to Levy.² The letter is printed from the ICS.

The Integrated Data Retrieval System (IDRS) is an on-line data retrieval and data entry system that processes transactions entered from terminals located in both service centers and field offices. The system enables employees to perform such tasks as researching account information, requesting tax returns, entering account information, and generating documents. The IDRS serves as a link from service centers and field offices to the Masterfile in order for the IRS to maintain accurate records of activity on taxpayers' accounts.

Masterfile is the IRS' database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

¹ Notice of Intent to Levy and Notice of Your Right to a Hearing, Letter 11 (Rev. 1-1999).

² Notice of Intent to Levy and Notice of Your Right to a Hearing, Letter 1058 (DO) (Rev. 1-1999).

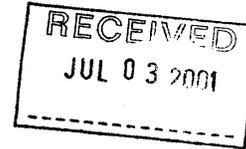
Management's Response to the Draft Report



COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

JUL - 3 2001



MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

for Joseph Kehoe *Joe F. Kehoe*
Commissioner, Small Business/ Self-Employed Division

SUBJECT:

Draft Audit Report - The Internal Revenue Service Complied
With Levy Requirements

Thank you for the opportunity to review and comment on the subject draft audit report. We were particularly pleased that, as a result of your audit, you determined that the IRS complied with 26 U.S.C. §6330 by notifying taxpayers of its intent to levy, and of their appeal rights, at least 30 days before issuing levies. As noted in your report, we upgraded the Automated Collection System (ACS) and the Integrated Collection System (ICS) to ensure compliance with this 30-day requirement. These upgrades, along with future enhancements, as further elaborated in our response to your recommendations, will promote our continued compliance with all the legal and procedural requirements for levy.

We agree with Recommendations 2 and 3, and our proposed corrective actions mirror your report. Regarding Recommendation 1, which would require revenue officers to maintain proof on every case that they timely mailed Notices of Intent to Levy to taxpayers, we are providing an alternative corrective action, based on the following:

- The Postal Service provides special service to our service centers due to the volume of mail they generate. Revenue officers do not have this special service available to them because they generate a much smaller volume of mail.
- Requiring revenue officers to document mailing, up front, for all Notices of Levy would further burden our limited resources. As long as there is enough postage on an envelope to cover the cost of mailing the letter certified, return receipt requested, it can be dropped in a mailbox. In addition, for offices in remote locations, there are no post offices nearby.
- In the service centers all Notices of Intent to Levy are sent by certified mail, return receipt requested. However, in the Collection Field function, the revenue officer can choose to hand deliver the Notice of Intent to Levy to the taxpayer or leave it at the last known address. In such instances, there is no proof of delivery other than the revenue officer's notation in the case history.

Our planned approach has been discussed with your staff. Specific actions we will take are detailed in our response to Recommendation 1.

The Internal Revenue Service Complied With Levy Requirements

2

RECOMMENDATION 1

The Commissioner, SB/SE Division, should develop guidelines to ensure that Revenue Officers working ICS cases maintain proof that they timely mailed Notices of Intent to Levy to taxpayers.

ASSESSMENT OF CAUSE

TIGTA did not always find proof of timely mailing of the Notice of Intent to Levy. A return receipt may not have been in the case file because the Notice was: delivered in person, left at the last known address, mailed by ACS and the case was later transferred to a revenue officer, was a reactivated Currently not Collectible (CNC) case, or the Notice was sent and nothing ever came back from the Post Office.

CORRECTIVE ACTION

We will add to the Internal Revenue Manual (IRM) that revenue officers will record in case histories when and how the notice is delivered. This will be a history entry generated by inputting codes to IDRS showing the notice was mailed or delivered.

Also, if the notice is mailed, the IRM will require the case file to include the certified mail receipt, although we will not require the Postal Service's stamp on it. In addition, the case file will include:

1. The return receipt, if the letter is delivered, or
2. The envelope used to mail the notice (with the return receipt attached), if the notice is refused, unclaimed, or returned undelivered.

As a result, we can document proof of mailing for all but the few exceptional instances when the notice is mailed and neither the envelope nor the return receipt comes back. In those instances, the case file will still include the certified mail receipt (though not stamped by the Postal Service). In addition we can obtain proof of mailing from the Post Office if needed since they maintain this information for a year after mailing.

IMPLEMENTATION DATE

January 1, 2002

RESPONSIBLE OFFICIAL

Director, Filing and Payment Compliance, Small Business/Self Employed

CORRECTIVE ACTION MONITORING PLAN

The appropriate functional staff will advise the Director, Filing and Payment Compliance of any delay in completing the corrective action.

RECOMMENDATION 2

The Commissioner, SB/SE Division, should ensure information is distributed to employees and that appropriate IRS manuals and guides are revised to clarify the procedures and stress the importance of updating taxpayer accounts to show a Notice of Intent to Levy has been issued.

The Internal Revenue Service Complied With Levy Requirements

3

ASSESSMENT OF CAUSE

Revenue officers did not always update taxpayer accounts on the Integrated Data Retrieval System to show they had provided Notices of Intent to Levy to taxpayers.

CORRECTIVE ACTION

We forwarded to ICS coordinators information on the failure to update accounts and the proper method of updating the FINAL NOTICE DATE. The coordinators will provide this information to front line employees. We also posted it on the ICS Bulletin Board along with information on the potential consequences of not properly marking the modules with the Notice of Intent to Levy indicator.

We are revising the IRM to provide instructions on the correct method for updating the notice information. The new Users Guide covers the instructions on documenting the method of delivery for the L-1058 (Notice of Intent to Levy for ICS). This version of the User Guide is available on the SBSE Compliance Web page, in PDF and HTML formats. All revenue officers should be able to read it from their laptops.

IMPLEMENTATION DATE

November 1, 2001

RESPONSIBLE OFFICIALS

Director, Filing and Payment Compliance, Small Business/Self Employed

CORRECTIVE ACTION MONITORING PLAN

The appropriate functional staff will advise the Director, Filing and Payment Compliance of any delay in completing the corrective action.

RECOMMENDATION 3

The Commissioner, SB/SE Division, should establish controls to ensure revenue officers request IDRS taxpayer account updates through the ICS when they provide taxpayers a Notice of Intent to Levy. This could be accomplished by including this issue in managerial and quality reviews.

ASSESSMENT OF CAUSE

Revenue Officers did not always update taxpayer accounts after providing Notices of Intent to Levy to taxpayers.

CORRECTIVE ACTION

We will revise the Collection Quality Measurement System to include a new process measure for reflecting the revenue officer's compliance with the requirement to update the taxpayer's account to document when they send the Notice of Intent to Levy.

IMPLEMENTATION DATE

January 1, 2002

The Internal Revenue Service Complied With Levy Requirements

4

RESPONSIBLE OFFICIALS

Director, Strategy, Research and Performance Management, Small Business/Self-Employed

CORRECTIVE ACTION MONITORING PLAN

The appropriate functional staff will advise the Director, Strategy, Research and Performance Management of any delay in completing the corrective action.

If you wish to discuss our response to your draft report, please call Martha Sullivan, Deputy Director, Compliance Policy, Small Business/Self-Employed, at (202) 622-5563.